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2001 Results-oriented annual report of the United Nations Capital Development Fund*

Summary

The Results-oriented annual report (ROAR) of the United Nations Capital Development Fund (UNCDF) for 2001, produced in compliance with Executive Board decision 99/22, captures the results achieved by UNCDF in 2001 under its strategic results framework (200-2003). New features of the 2001 ROAR include a refined strategic results framework and an initial, tentative attempt at performance-based budgeting.

Overall, the analyses of performance show that 2001 was a year of consolidation and deepening of the previous year's gains, resulting not necessarily in significant increases in output attainments but in improved quality of both project management and outputs. An analysis of expenditures reveals successful implementation by UNCDF of Executive Board decision 99/22 to focus its work in the two areas of local governance and microfinance. Independent, external evaluation of UNCDF work continues to indicate that its operations contribute significantly to the well-being of the poor while providing strong support for the UNCDF overall local development strategy. In terms of organizational strengthening, UNCDF has made significant strides towards completing its follow-up to the recommendations of the 1999 external evaluation. A significant achievement was the formalizing of partnership arrangements with UNDP in the area of microfinance. In resource mobilization, voluntary contributions displayed a slightly positive trend for the first time since 1996, increasing by 1 per cent in 2001; efforts to increase non-core resources resulted in non-core contributions of $5.5 million, an increase of 145 per cent over 2000. Despite these encouraging signs, total core resources have declined and, as noted by many delegations at the annual session 2001 of the Executive Board, the level of UNCDF resources is falling far short of the demand for its investment and capacity-building services by programme countries.

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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I. Introduction

1. The results-oriented annual report produced in compliance with Executive Board decision 99/22, captures the results achieved by the United Nations Capital Development Fund (UNCDF) in 2001 within the strategic results framework (SRF) 2000-2003. This is the second time that the Fund is reporting on its performance through the ROAR.

2. UNCDF uses the ROAR to provide an overview of its performance for the year, to help to identify areas in need of attention and to support decision-making at programme/project and headquarters levels. The report focuses on those results attributable to UNCDF interventions and which reflect the small size of UNCDF and its orientation towards innovating pilot projects in local governance and microfinance to help to reduce poverty.

3. The report does not attempt to measure the Fund's contribution towards poverty reduction in the global context. Research shows that access to basic infrastructure and services by the poor - including financial services - reduces poverty (See annex to the present report and the bibliography of the UNCDF policy paper "Taking Risks", UNCDF, 1999). Actual field impact will be reported in 2004 through an external impact evaluation. Also, as UNCDF interventions are a small part of overall international development assistance, its ability to contribute to the broader poverty reduction goal depends on its ability to promote replication and/or expansion of its work, either by the national governments or other development partners.

4. The present report provides a brief overview of the SRF, an analysis of overall UNCDF performance in 2001, and a detailed analysis of its performance under each sub-goal. Performance-based budgeting was introduced in 2001 to strengthen the focus and cost-effectiveness of UNCDF interventions. The methodologies for preparing the SRF and undertaking the ROAR analysis are summarized in the annex.

II. The UNCDF strategic results framework

5. The overall goal of UNCDF is to help to reduce poverty. Towards this goal, the Fund is committed to innovation and calculated risk-taking. UNCDF understands that its mandated role demands focus. The Fund therefore works to reduce poverty by: (a) piloting small-scale investments in two areas only - local governance and microfinance; (b) concentrating its investments on a selected number of least developed countries (LDCs), of which 15 are considered concentration countries; and (c) ensuring continuous organizational learning and strengthening to attain its goals.

UNCDF and partners in Mozambique

Since 1998, together with UNDP and the Government of the Netherlands, UNCDF has been piloting a decentralized planning, local capacity-building and investment programme in the Nampula province of Mozambique. Intense monitoring and evaluation have allowed the Government to adjust the pilot programme and turn it into a model for replication in other provinces. Consequently, the Government of the Netherlands has extended its support for the consolidation of the Nampula experience, the Government of Norway has decided to support the replication of the programme in the Cabo Delgado province and the World Bank is putting together an overall framework for national replication.

6. In the ROAR 2000, the UNCDF overall goal of poverty reduction was divided into four sub-goals: local governance, microfinance, natural resource management, and corporate management. For 2001, natural resource management was integrated into the operations of the Fund's primary local governance intervention – the local development programmes (LDPs). Accordingly, results achieved in natural resources management are reported under the local governance sub-goal. Furthermore, building on the previous year's experience, the SRF was refined to better track performance towards the strategic outcomes. Therefore, the overall goal is now divided into only three sub-goal areas, with refinement, and addition, of performance indicators. The strategic results for UNCDF are reported accordingly, in local governance, microfinance and organization strengthening.

Local governance

7. UNCDF promotes poverty reduction in direct partnership with local authorities, community institutions, non-governmental organizations (NGOs) and the private sector. It does so through its Local Governance Unit (LGU). In this area of operations, UNCDF promotes decentralized, participatory approaches to the provision of basic infrastructure and services (health, education, transportation, markets, water systems) as well as the management of natural resources. The

Fund uses seed capital to develop local institutional capacities in planning and financial management by coupling real resource management responsibilities with capacity-building support services. Partnership with programme country Governments, local authorities and communities is emphasized to ensure that local investments match local needs, are managed efficiently and are sustainable. At the same time, partnership with other donors and development agencies facilitates the replication of UNCDF-piloted interventions. In its decision 99/22, the Executive Board stressed the importance of strengthening the UNCDF partnership with UNDP. As an indication of this, all LDPs include partnership arrangements with UNDP. In the same decision, the Board recommended that UNCDF focus on local governance. Since then, the Fund has been phasing out blueprint infrastructure projects and integrating best eco-development practices within its LDPs. This process is ongoing. Currently, the LGU supports poverty-reduction efforts through a portfolio of mainly LDPs along with some eco-development and infrastructure projects from the previous generation of projects.

Microfinance

Microfinance in Nicaragua

A UNCDF-supported microfinance project is successful in creating financially sustainable microfinance institutions in northern Nicaragua and providing them with access to financial resources. One organization in particular, Fundenuse, became an efficient and sustainable microfinance institution with operational costs at 16.5 per cent and operational self-sufficiency at 165 per cent.

8. UNCDF invests with the poor by supporting the development of reliable and sustainable microfinance institutions. It does so through its Special Unit for Microfinance, which also serves as the technical and policy advisor to the UNDP group in the practice area of microfinance. In 1998, UNCDF reformulated its approach to microfinance, based on an external portfolio review conducted by the Consultative Group to Assist the Poorest. Recognizing the small number of sustainable microfinance institutions facing the massive demand for microfinance services globally, UNCDF supports start-up, young and promising microfinance operations that have the potential to breakthrough and become significant players in their markets. The aim is to increase the number of institutions that provide sustainable microfinance. UNCDF has a clear policy objective to support only microfinance operations that show a clear, credible path to financial and institutional sustainability. Sustainable access to microfinance provides poor and low-income households enables micro and small businesses to survive and grow, offering the opportunity for self-employment and job creation for the non-entrepreneurial poor. In addition, access to savings services provides opportunities for people to manage and safeguard their money better, enabling them to build strategies for mitigating risk and building assets to invest in the future. It is for these reasons that sustainable microfinance is perceived as a powerful tool to alleviate poverty.

Organization strengthening

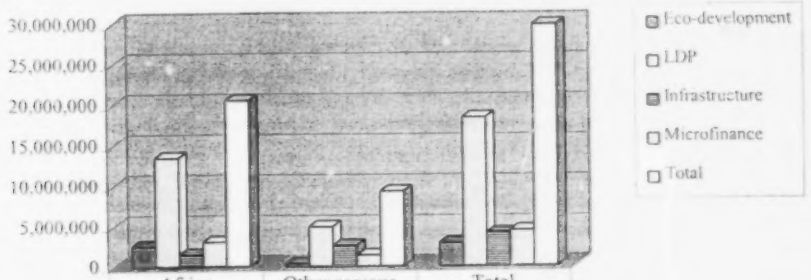
9. UNCDF is committed to managing for results. In order to ensure its ability to support its programmes in local governance and microfinance, UNCDF takes constant steps to maintain and build new capacity to perform well. It has located a range of technical skills, in the form of technical advisors in programme regions as well as at headquarters, to respond positively to its operating environment. This breadth in technical competencies is designed not only to satisfy current development requirements but also to address future possibilities to which UNCDF is being invited, increasingly, to respond. To ensure organizational learning, the Fund insists on external, independent assessments to expose mistakes in order to learn from them. Finally, in order to develop and fine-tune systems and procedures to support the delivery of the various UNCDF services, the organization has spent considerable effort in conducting an organization-wide functional analysis, building up its results-based management system, including its management information systems, and introducing the idea and technique of performance budgeting.

10. Thus, the UNCDF strategy is clearly and consistently framed within the three sub-goal areas. Under each sub-goal are sets of indicators that spell out the desired outcomes for each sub-goal. With this strategic results framework in place, it is now possible to review 2001 performance in detail.

Analysis of portfolio

11. In 2001, UNCDF had an overall project portfolio of 92 projects, of which 53 projects met the criteria for reporting, i.e., activities lasting more than five months with expenditure over $50,000 in 2001; annual reports were provided for 44 of these projects and have aggregated into the 2001 ROAR. The remaining 11 projects were not included in this report because of reporting problems mainly relating to submission of incomplete data. UNCDF will take appropriate action to improve reporting by all its projects for the next ROAR.

Figure 1. Regional distribution per project type (2001 expenditures) (in US dollars)



	Africa	Other regions	Total
Eco-development	2,542,541	347,665	2,890,206
LDP	13,461,402	4,917,491	18,378,893
Infrastructure	1,504,623	2,591,122	4,095,745
Microfinance	3,034,618	1,401,452	4,436,070
Total	20,543,184	9,257,730	29,800,914

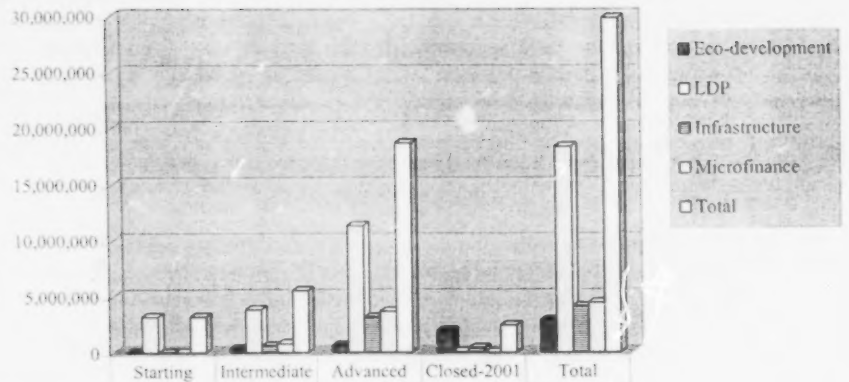
Distribution per number of projects:

Eco-development	3	1	4 (9%)
LDP	17	5	22 (50%)
Infrastructure	4	4	8 (18%)
Microfinance	6	4	10 (23%)

12. As figure 1 shows, of the 44 reporting projects, the majority are local development programmes (22 or 50 per cent), with microfinance projects second (10 or 23 per cent) followed by infrastructure projects (8 or 18 per cent) and eco-development projects (4 or 9 per cent). In accordance with decision 99/22, as noted above, infrastructure and eco-development projects are being phased out.

13. Total programme expenditure in 2001 for all 92 projects was approximately US$36 million. The 44 reporting projects account for $29.8 million or 83 per cent of the total. In expenditure terms, the trend towards more investments in LDPs is confirmed. LDPs account for the bulk of expenditures ($18.3 million or 61 per cent of reporting projects) followed by microfinance projects ($ 4.4 million or 15 per cent). Consistent with the move away from blueprint infrastructure and stand-alone eco-development projects, they accounted for only $4 million (or 13 per cent) and $2.8 million (or 9 per cent) respectively.

Figure 2. Distribution per project type and maturity (in US dollars)



	Starting	Intermediate	Advanced	Closed-2001	Total
Eco-development	0	347,665	597,381	1,945,160	2,890,206
LDP	3,183,148	3,830,414	11,300,730	64,601	18,378,893
Infrastructure	0	562,799	3,122,077	410,869	4,095,745
Microfinance	-2,068	784,869	3,653,269	0	4,436,070
Total	3,181,080	5,525,747	18,673,457	2,420,630	29,800,914

Distribution per number of projects:

Eco-development	0	1	2	1	4
LDP	7	4	10	1	22
Infrastructure	0	3	4	1	8
Microfinance	1	2	7	0	10
Total	8	10	23	3	44

14. Analysis of expenditure by project maturity shows a distinct, expected trend, with the bulk of expenditure by projects in the advanced implementation stage ($18.7 million or 63 per cent), followed by projects at the intermediate implementation stage ($5.5 million or 18 per cent) and projects just starting implementation ($3.1 million or 10 per cent). Projects closed in 2001 accounted for $2.4 million or 8 per cent of expenditures.

III. Performance analysis

15. In the performance analysis of the three sub-goals, performance is assessed by the percentage of projects that attained their 75 per cent or more of their planned targets under each outcome indicator (see annex for more details). The rating system is as follows:

Percentage of projects attaining planned targets	Rating
75%- 100%	Satisfactory
50-74%	Partially achieved
Below 50%	Below expectations

16. Overall, the following analyses of performance under each sub-goal show that 2001 was a year of consolidation and deepening of the previous year's gains, resulting not necessarily in significant increases in output attainments but in improved quality of both project management and outputs.

A. Performance analysis for sub-goal 1: Local governance

17. Sub-goal 1 is to increase sustainable access of the poor to basic infrastructure and public services and to productive livelihoods opportunities through good local governance and enhanced natural resources management.

Thirty-four projects are accounted for under this sub-goal (22 LDPs, 4 eco-development and 8 infrastructure projects). The local governance outcomes, performance scores and summary assessments are presented in table 1.

Table 1. Performance of sub-goal 1.

	Outcome	*2000 Performance*	2001 % scores	2001 Performance
1.1.1.	Improved capacity of local communities and civil society organizations to participate in the planning of local development	*Satisfactory*	82	Satisfactory
1.1.2.	Participatory planning processes are institutionalized at the level of local authorities	*Partially achieved*	79	Satisfactory
1.2.1.	Financing mechanisms, based on principles of good governance, are institutionalized at the local level	*Partially achieved*	71	Partially achieved
1.2.2.	Local authorities have improved access to sustainable funding sources	*Partially achieved*	44	Below expectations
1.3.1.	Local capacity to deliver basic infrastructure and public services is increased	*Satisfactory*	57	Partially achieved
1.3.2.	Local capacity to maintain basic infrastructure and public services is increased	*Partially achieved*	51	Partially achieved
1.3.3.	Local communities are empowered to hold local authorities accountable for the delivery of basic infrastructure and public services	*Satisfactory*	84	Satisfactory
1.4.1.	Capacity of the local authorities and the communities to manage the natural resources base in a sustainable manner is improved	*Below expectations*	60	Partially achieved
1.5.1.	National policy and regulatory frameworks for decentralization and strengthened local government is improved	*Satisfactory*	52	Partially achieved
1.5.2.	Best practices of UNCDF pilot projects are replicated by other donors and central governments	*Satisfactory*	50	Partially achieved

18. The results for 2001 suggest performance gains in some areas and some slippage in others. Whereas local governance projects performed satisfactorily towards five outcomes in 2000, satisfactory progress towards three outcomes is reported for 2001. Results achieved by the local governance projects continue to demonstrate the strong commitment of UNCDF to ensure stockholder participation across its different interventions. An area of encouragement is the improvement in the institutionalization of participatory processes at the local level. Another encouraging sign is the improvement in work towards building local authority and community capacity in natural resource management.

19. These encouraging results reflect the intensive advocacy efforts by project teams to institutionalize participatory planning and natural resource management at the local level. In gender-mainstreaming, more projects are reporting on the participation of women than in 2000 and there is a slight gain in the number of projects attaining their targets for the participation of women. These are slow, but sure, positive results of increasing gender advocacy efforts by programme management.

Viet Nam illustrates the UNCDF approach

Within the reform framework of the Government, UNCDF is supporting Viet Nam in its efforts to alleviate poverty in rural areas in the central provinces of Quang Nam and Da Nang by providing funds for improved rural infrastructure through a decentralized planning and investment process. With UNCDF support, the Rural Infrastructure Development Fund (RIDEF) has developed a new approach to management that empowers local governments and communities. The project has helped 122 communes to rehabilitate and construct over 800 rural facilities, such as health clinics, irrigation schemes, small bridges, access roads, schools, markets and power-supply systems.

20. There are three outcomes where it is difficult to capture performance on an annual basis because achievement requires a longer time frame: local resource mobilization; policy change; and replication. Nevertheless, the fact that progress is partially achieved in the latter two areas is encouraging. Twelve out of 17 projects reported satisfactory performance in attaining their policy goals while three out of six projects reported attainment of their replication goals. It should be noted that these are ongoing efforts for most projects and, in the instance of policy change and replication, attainment of outcome is largely dependent on the actions of government and development partners.

infrastructure and basic services. Projects performed satisfactorily in 2000 but report partial achievement in 2001. Still, 60 per cent of projects achieved their implementation targets for an impressive total of 1,656 small-scale infrastructures

constructed. These small-scale infrastructures provide a range of services for a large number of community members; for example, four projects reported coverage of 2,556 villages while three projects reported that at least 5.4 million community members benefited. Various factors affect the successful construction of infrastructure in different countries including procurement and construction delays, although in a few instances overambitious planning has been cited as a reason for non-performance.

B. Performance analysis for sub-goal 2: Microfinance

22. The aim of sub-goal 2 is to increase access of the poor, especially women, to financial services on a sustainable basis through strengthened micro-finance institutions and an enabling environment. UNCDF microfinance outcomes, performance scores and summary assessments are presented in table 2, followed by a general review. The following analysis covers only the results produced by UNCDF capital investments in microfinance. Ten microfinance projects are accounted for in this analysis, covering 27 microfinance institutions (MFIs). It should be noted that, as the Special Unit for Microfinance has only recently been fully integrated into UNCDF, a significant part of UNCDF/SUM activities (i.e., managing the Microstart and Microsave programmes, providing technical advisory support to UNDP microfinance activities and capacity-building for donors and practitioners in the sector) are not captured in this analysis but are reported upon in a descriptive manner here as well as under sub-goal 3. New indicators will be developed to capture the contribution of these activities to the microfinance sub-goal in 2002.

Table 2. Performance of sub-goal 2.

	Outcome	*2000 Performance*	2001 % scores	2001 Performance
2.1.1.	The poor, especially women, have greater access to micro-finance services	*Satisfactory*	70	Partially achieved
2.2.1.	Microfinance institutions are financially viable and provide quality services	*Satisfactory*	56	Partially achieved
2.3.1.	Countries have improved their enabling environments for supporting the development of microfinance.	*Satisfactory*	100	Satisfactory

23. From table 2, results at the outcome level seem to indicate that microfinance operations suffered a setback in 2001. However, analyses of the results show that performance actually improved in absolute terms. For example, under the first outcome, though the number of MFIs reaching their performance targets declined, the number of active borrowers reached by these MFIs has increased over 2000.

24. Similarly, in the second outcome area, there has actually been an increase in the number of MFIs performing satisfactorily – up to 16 from 14, but because the number of MFIs reporting has increased, the performance rate is "partially achieved". The significant increase of MFI partners now tracking their operational self-sufficiency; up to 27 from 16, is a strong indication in itself that the MFIs are committed towards best practice and sustainability in microfinance operations. This is also an indication that MFIs are taking an important step towards incorporating a more transparent reporting process.

25. As in 2000, only one project (supporting five MFIs) had the opportunity to influence the operating environment for microfinance and it did so effectively. It should be noted that UNCDF generally adopts a cautious approach to promoting institutional change at the policy level because success in this area depends on a relatively rare confluence of factors, not least of which is the existence of a critical mass of viable MFIs capable of demonstrating how the application of internationally accepted systems, procedures and practices can produce a significant impact in terms of outreach to poor populations on a sustainable basis. Moreover, in countries where the microfinance industry is embryonic, as is the case for the majority of least developed countries (LDCs) where UNCDF invests, experience has shown that the best approach is to allow institutions to operate under existing policy frameworks where possible, while supporting MFIs on the ground to test these frameworks.

26. Strengthening the UNCDF partnership with UNDP is one of the main recommendations of the 1999 external evaluation of UNCDF. Through MicroStart, UNCDF/SUM partners with UNDP in 19 countries. Collectively, at the end of 2001, the 68 MFIs that have received assistance have increased by 197,938 the number of active clients they serve, from a baseline of 128,770 active clients to 324,262. From these investments, UNCDF/SUM is seeing an increasing number of breakthrough MFIs (i.e., when an organization becomes a major service provider in its geographic

area, attaining substantial independence from donors through financial viability and influencing other providers). It is generally accepted that it takes an MFI three to five years to reach operational self-sufficiency. At the end of 2001, the length of time MicroStart country programmes have been operational averages only two years. It is very encouraging that, already, 17 participating MFIs have achieved operational self-sufficiency while 48 MFIs have demonstrated clear progress towards it. In addition, 34 MFIs have a portfolio at risk at 30 days of less than 5 per cent.

C. Performance analysis for sub-goal 3: Organization strengthening

27. The aim of sub-goal 3 is to promote a financially sound organization that develops and implements quality programming in local governance and micro-finance. The organization strengthening outcomes, performance scores and summary assessments are shown in table 3.

Table 3: Performance of sub-goal 3.[1]

	Outcome	*2000 Performance*	2001 Performance
3.1.1.	UNCDF has moved from policy refinement to an emphasis on operational impact;	Satisfactory	Satisfactory
3.1.2.	UNCDF has maintained quality assurance through skilled staffing, improved elements of the project cycle and continuous learning through monitoring and evaluation;	Satisfactory	Satisfactory
3.1.3.	UNCDF has maximized its comparative advantages through improved partnerships;	Satisfactory	Satisfactory
3.2.1.	UNCDF has became more efficient and cost-effective through improved tracking and analysis of its finances;	Satisfactory	Partially achieved
3.2.2.	UNCDF has developed a culture of resource mobilization based on measurable performance, efficiency and value for money; and	Partially achieved	Partially Achieved
3.2.3.	UNCDF has diversified its resource base and increased the number of donors.	Partially achieved	Satisfactory

[1] As several outcome indicators under Sub-Goal 3 are qualitative indicators, no aggregate performance score is provided.

28. Independent, external evaluation of UNCDF work continues to indicate that its operations contribute significantly to the well-being of the poor while providing strong support for UNCDF overall local development strategy. Under organization strengthening, UNCDF has made significant strides towards completing its follow-up to the recommendations of the 1999 external evaluation (see UNCDF action plan 2000, circulated to Members of the Executive Board and available from UNCDF). Of the 11 recommendations, five have been completed and four are near completion; the remaining two will be addressed in 2002. In addition to the recommended actions, UNCDF management took the initiative to conduct functional analyses of each of its headquarter units, resulting in better allocation of limited staff resources, improved inter-unit communications and greater overall efficiency in operations.

29. Moving from the successful completion of policy refinement work in 2001, UNCDF focused its energies on making its refined policies operational. This was achieved through the successful application of the new project formulation guidelines as well as the policy impact and replication guidelines, resulting in formulation processes appreciated by all stakeholders, completed in good time, and with substantive analysis of policy impact and replication opportunities. There was also successful follow-through on formalizing important partnership arrangements with UNDP.

30. In response to the steps taken by UNCDF in facing the primary challenge of resource mobilization, voluntary contributions displayed a slightly positive trend for the first time since 1996, increasing by 1 per cent in 2001. Efforts to increase non-core resources resulted in $5.5 million non-core contributions, an increase of 145 per cent over 2000. It is anticipated that an even higher amount will be raised in 2002. Despite the increase in core-contributions in 2001, total core resources have declined as a result of a reduction by approximately 50 per cent of miscellaneous income, attributable to a very low interest rate on accumulated liquidities in 2001. In applying the partial funding formula, UNCDF has reduced its new approvals downwards to $10.6 million from an original target of $20 million. As noted by many delegations at the annual session 2001 of the Executive Board, the level of UNCDF resources is falling far short of the demand for its investment and capacity-building services.

IV. Financial summary at the sub-goal level

31. UNCDF is introducing performance budgeting to its operations. In so doing, it hopes to increase the rigour by which it assesses its performance through the ROAR. As the ROAR 2000 is the first where such analysis is included, the steps are tentative and modest. Table 4 shows the estimated programme expenditure for each of the three sub-goals; the expenditure relates only to UNCDF investments in local governance and microfinance. Expenditure under the UNDP-funded Microstart programme is reported in the UNDP ROAR. It can be seen that expenditure for organization strengthening represents only 2 per cent of total programme expenditure.

Table 4: Programme expenditure per sub-goal

Sub-goal	Deliverables through	$ millions	Percentage
1	Local governance	31.7	85.7
2	Microfinance	4.6	12.4
	Subtotal	**36.3**	**98.1**
3	Organization strengthening	0.7	1.9
	TOTAL	**37**	**100**

32. UNCDF administrative expenditure in 2001 accounted for $5.98 million out of a total expenditure of $42.9 million. UNCDF has undertaken a financial approximation in 2002, which will be refined in future ROARs. Total administrative expenditure was apportioned according to estimates of staff time and total resources expended under each sub-goal; table 5 provides an estimate of the total expenditure per sub-goal. This approximation shows that total expenditure in support of organization strengthening, including management and related support functions comes to 8 per cent of total expenditure. This analysis conveys the fact that 92 per cent of total UNCDF expenditure is devoted, directly (project implementation) and indirectly (management, technical and administrative support, focused policy development and resource mobilization, etc.), to producing programme results on the ground.

Table 5: Total expenditure (programme and administrative) per sub-goal

Sub-goal	Deliverables through	2001 actual $ million	2001 %
1	Local governance	34	80
2	Microfinance	5.7	12
3	Organization strengthening	3.2	8
	TOTAL	**42.9**	**100**

V. Analysis of outcomes by strategic areas of support

A. Local governance

33. The first strategic area of support is 1.1: Promote a participatory development planning process at the local level. It has two outcomes.

Outcome 1.1.1: Improved capacity of local communities and civil society organizations to participate in the planning of local development. [Rating: Satisfactory – 82 per cent]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.1.1.a – Percentage of projects where community needs are assessed in a participatory manner	*16 projects*	*14 projects (87%) [Satisfactory]*	20 projects	19 projects (95%) [Satisfactory]
1.1.1.b – Percentage of projects where women participate in community needs assessments	*12 projects*	*10 projects (83%) [Satisfactory]*	16 projects	11 projects (68.8%) [Partially achieved]

1.1.1.c - Percentage of projects in which members of local development committees and women's groups are trained in participatory planning	*In 2000, indicator 1.1.1.c was defined as the percentage of communities regularly preparing annual investment plans. This indicator has been dropped as irrelevant. It has been reformulated as 1.2.1.a. below.*	16 projects	13 projects (81.3%) [Satisfactory]
Average score and assessment for 2001			**82% [Satisfactory]**

34. A cornerstone of the UNCDF approach is that local communities are involved in the decisions concerning their development. This continues to be an area of strength for UNCDF. The achievement in the conduct of community needs assessment was high in 2001 with 95 per cent of planned targets reached, compared to 87 per cent in 2000. In total, 20 projects in 16 countries reported on the participation of community members in participatory needs assessment exercises. Twelve countries reported actual participation figures totaling over half a million (567,025) community members. Sixteen projects in 15 countries reported on the participation of women in community-needs assessments. This represents an increase over 2000, when only 12 projects reported. The total number of women participating in needs assessment from the 12 countries that reported actual figures was 164,044 or 29 per cent of the reported total. Eleven projects attained their women participation targets in 2001 compared to 10 in 2000. However, as the number of projects reporting has increased, the performance rating is "partially achieved" (68.8 per cent). The fact that more projects are reporting on the participation of women is an indication that this issue is receiving the attention due to it. Work remains to be done. [Satisfactory: 82 per cent]

Outcome 1.1.2: Participatory planning processes are institutionalized at the level of local authorities. [Satisfactory: 79 per cent]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.1.2.a - Percentage of projects where local authorities approve local development plans	*14 projects*	*8 projects (57%) [Satisfactory]*	17 projects	14 projects (82.4%) [Satisfactory]
1.1.2.b - Percentage of projects where guidelines for elaborating local development plans exist and are complied with.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	11 projects	8 projects (72.7%) [Partially achieved]
1.1.2.c - Percentage of projects where local authorities' guidelines require that Local Development Plans derive from participatory planning exercise	*Not applicable (new indicator)*	*Not applicable (new indicator)*	6 projects	5 projects (83.3%) [Satisfactory]
1.1.2.d - Percentage of projects where local authorities define and apply transparent investment selection criteria	*Not applicable (new indicator)*	*Not applicable (new indicator)*	10 projects	10 projects (100%) [Satisfactory]
1.1.2.e - Percentage of projects where community representatives, including women, are involved in the approval of local development plans	*Not applicable (modified indicator)*	*Not applicable (modified indicator)*	12 projects	7 projects 58.3% [Partially achieved]
Average score and assessment for 2001				**79% [Satisfactory]**

35. A participatory planning process is institutionalized when it has become common practice or is mandatory. Institutionalization is therefore at the same time an outcome and a process, which takes time to achieve. The above indicators show that UNCDF projects have attained satisfactory success in institutionalizing participatory planning processes at the local levels. Not only did the number of projects reporting increased in 2001, but the number of projects successfully attaining their targets also increased. In all, of projects that reported on the actual number of local development plans approved, 274 plans were approved by local authorities in 11 countries. To provide a sense of the coverage, four projects reported that at least 2,556 villages were covered and three projects reported 5,437,220 people covered by the plans. In addition, the performance in ensuring transparency in the selection of local investments is particularly strong. [Satisfactory: 79 per cent]

36. *The second strategic area of support is 1.2: Promote sound and sustainable financing and financial management practices at the local level. It has two outcomes.*

Outcome 1.2.1: Financing mechanisms based on principles of good governance are institutionalized at the local level. [Partially achieved: 71 per cent]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.2.1.a - Percentage of projects where local authorities prepare annual investment plans.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	11 projects	11 projects (100%) [Satisfactory]
1.2.1.b - Percentage of projects where local authorities' accounts are audited by a national audit authority.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	5 projects	2 projects (40%) [Below expectations]
1.2.1.c - Percentage of projects with an improved compliance by local authorities with national financial, management and accounting procedures.	*7 projects*	*6 projects (86%) [Satisfactory]*	4 projects	3 projects (75%) [Satisfactory]
1.2.1.d - Percentage of projects where at least 75 per cent of local authorities meet project defined minimum conditions for fund access.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	10 projects	8 projects (80%) [Satisfactory]
1.2.1.e - Percentage of projects where local authorities staff are trained in accounting and financial management.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	15 projects	5 projects (33.3%) [Below expectations]
1.2.1.f - Percentage of projects where local authorities publicize budgets and expenditures (including indicative planning figures).	*6 projects*	*4 projects (67%) [Partially achieved]*	8 projects	8 projects (100%) [Satisfactory]
Average score and assessment for 2001				**71% [Partially achieved]**

37. Performances in this area are very strong in the preparation of annual investment plans, compliance with established accounting procedures, meeting of minimum performance conditions and, particularly, the transparency indicator – whether or not local authorities publicize their budgets and expenditures. Poorer performance is noted in the national audits of local accounts but it should be remembered that the implementation of national audits is hardly within the purview of the projects. An area of concern is the low number of projects meeting their performance targets in training local authorities' staff in accounting and financial management. Although it is encouraging that a large number of projects are reporting on this important outcome, the performance rating is below expectations. [Partially achieved: 71 per cent]

Outcome 1.2.2: Local authorities have improved access to sustainable funding sources. [Below expectations: 44 per cent]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.2.2.a - Percentage of projects where local authorities' local revenues increase.	*8 projects*	*3 projects (38%) [Below satisfaction]*	6 projects	3 projects (50%) [Partially achieved]
1.2.2.b - Percentage of projects where intergovernmental fiscal transfers to local authorities are stabilized or increase.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	6 projects	2 projects (33.3%) [Below expectations]
1.2.2.c - Percentage of projects where donors funding to local authorities increases.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	6 projects	3 projects (50%) [Partially achieved]
Average score and assessment for 2001				**44% [Below expectations]**

38. UNCDF LDP projects aim to ensure that the practices that are established under the project are sustainable once UNCDF funding ends. This is a particularly difficult area of work, given the poor resource conditions under which most LDPs operate. Intergovernmental fiscal transfers include all those from the central or provincial governments to be used by the local authorities for the financing of the local development. Of six projects reporting on this indicator, two reported satisfactory attainment of the targeted increases in positive fiscal transfers of 41 per cent and 21 per cent increase respectively. One project actually reported a decline in fiscal transfers of 25 per cent. Donor funding is the last of the elements that make up local government income. In most countries where UNCDF is active, donor funds are likely to account for the greatest share of investment budgets. Of six projects reporting on this indicator, half attained their donor investment targets satisfactorily. [Below expectations: 44 per cent]

39. *The third strategic area of support is 1.3: Develop local capacity to deliver and maintain basic infrastructure and public services on a sustainable basis. It has three outcomes.*

Outcome 1.3.1: Increased local capacity to deliver basic infrastructure and public services. [Partially achieved: 56.8 per cent]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.3.1.a - Percentage of projects where the number of basic infrastructure and public services at community level increases.	*22 projects*	*15 projects (68%) [Partially achieved]*	23 projects	12 projects (52%) [Partially achieved]
1.3.1.b - Percentage of projects achieving targets for km of roads rehabilitated or constructed.	*Not applicable (new indicator)*	*New Indicator*	10 projects	6 projects (60%) [Partially achieved]
1.3.1.c - Percentage of projects where micro-projects are completed within 125% of planned budget	*Not applicable (indicators merged)*	*Not applicable (Indicators merged)*	14 projects	10 projects (71%) [Partially achieved]
1.3.1.d - Percentage of projects where micro-projects are completed within 125% of scheduled timing.			10 projects	4 projects (40%) [Below expectations]
1.3.1.e - Percentage of projects where at least 75% of micro-projects are positively assessed for quality	*9 projects*	*8 projects (89%) [Satisfactory]*	10 projects	3 projects (30%) [Below expectations]
1.3.1.f - Percentage of projects where local authorities and the private sector are trained in the delivery of basic infrastructure and public services.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	21 projects	15 projects (71%) [Partially achieved]
Average score and assessment for 2001				**56.8% [Partial achieved]**

40. The commitment to increase local capacities to deliver basic infrastructure and public services necessitates sustained, long-standing and multipronged undertakings. Among them, initial training of a variety of local actors is a recurrent feature of UNCDF projects. Encouragingly, three out of four projects achieved their training targets in 2001. However, the outcome and impact of such training are still to materialize, as only 60 per cent of the projects achieved their targets regarding the provision of small-scale infrastructures (as compared to the 68 per cent target achievement rate of 2000). While most construction activities were complete within their planned budgets, only 40 per cent of projects reported completion of infrastructure in a timely manner (i.e., within 125 per cent of planned time) and only one out of three projects reached its target on technical inspection of the completed infrastructure. [Partially achieved: 56.8 per cent].

Concrete results and benefits

In 2001, at least 534,000 persons benefited from 1,656 newly constructed small-scale infrastructures. These include: 21 health centres; 4 clinics; 97 wells; 46 kindergartens; 184 primary schools; 47 springs; 82 drinking water supply schemes; 10 km of canals; 801 small-scale irrigation schemes; 38 grind mills; 18 tree nurseries;10 markets; 16 shops; 16 public buildings.

Outcome 1.3.2: Increased local capacity to maintain basic infrastructure and public services. [Partially achieved: 63 per cent]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.3.2.a - Percentage of projects where the physical infrastructure is being maintained two years after it was built.	*Not applicable (modified indicator)*	*Not applicable (modified indicator)*	5 projects	3 projects (60%) [Partially achieved]
1.3.2.b - Percentage of projects with micro-projects that have operation and maintenance plans and budgets prior to construction.	*14 projects*	*8 projects (57%) [Partially achieved]*	14 projects	7 projects (50%) [Partially achieved]
1.3.2.c - Percentage of projects that meet targets regarding km of roads rehabilitated or constructed that have maintenance plans and budgets.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	2 projects	2 projects (100%) [Satisfactory]
1.3.2.d - Percentage of projects where local authorities and the private sector are trained in the maintenance of basic infrastructure	*Not applicable (new indicator)*	*Not applicable (new indicator)*	14 projects	6 projects (43%) [Below expectations]
Average score and assessment for 2001				**63% [Partially achieved]**

41. The 1999 evaluation results report identified operation and maintenance as a recurrent problem, and efforts are ongoing to improve performance in this area. In 2001, at least 297 operation and maintenance committees were either established or supported, and at least 515 persons (operation and maintenance committees members, Local Authorities staff, private sector employees) trained in infrastructure operation and maintenance. Sixty two per cent of the

constructed small-scale infrastructure, on average, had operation plans prior to construction and three out of five projects reported that infrastructure constructed two years previously was still being well maintained. Although this is an improvement over 2000, when no projects had targets, infrastructure operation and maintenance undoubtedly remain a corporate priority. [Partially achieved: 63 per cent].

Outcome 1.3.3: Local communities are empowered to hold local authorities accountable for the delivery of basic infrastructure and public services. [Satisfactory: 84 per cent]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.3.3.a - Percentage of projects where local authorities have put in place and are using consultation mechanisms.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	12 projects	8 projects (67%) [Partially achieved]
1.3.3.b - Percentage of projects where local authorities are bound by rules that ensure that bidding and contracting is transparent and that the processes are open to public review.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	7 projects	6 projects (86%) [Satisfactory]
1.3.3.c - Percentage of projects where local communities have access to public spending records.	*6 projects*	*4 projects (67%) [Partially achieved]*	3 projects	3 projects (100%) [Satisfactory]
		Average score and assessment for 2001		**84% [Satisfactory]**

42. Transparent bidding and contracting processes and public access to public finance information are key elements of good governance practices. The availability of local mechanisms for dialogue and consultation will help to ensure sustained popular participation in decision-making processes and increase local authorities' accountability towards their constituencies. UNCDF projects have made some good progress, although limited in scope, in these three areas in 2001. [Satisfactory: 84 per cent].

43. *The fourth strategic area of support is 1.4. Promote productive livelihoods opportunities through sustainable local management of natural resources. It has one outcome.*

Outcome 1.4.1: Improved capacity of the local authorities and the communities to manage the natural resource base in a sustainable manner. [Partially achieved: 60 per cent]

Indicators	*2000Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.4.1.a - Percentage of projects where local authorities plan and invest in relating to natural resource management.	*6 projects*	*3 projects (50%) [Partially achieved]*	8 projects	5 projects (62%) [Partially achieved]
1.4.1.b - Percentage of projects where local authorities control and regulate access and use of natural resources.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	5 projects	3 projects (60%) [Partially achieved]
1.4.1.c - Percentage of projects with initiatives relating to natural resource management supported by two or more local authorities.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	5 projects	2 projects (40%) [Below expectations]
1.4.1.d - Percentage of projects where natural resource management user groups are established and functional.	*Not applicable (modified indicator)*	*Not applicable (modified indicator)*	7 projects	5 projects (71%) [Partially achieved]
1.4.1.e - Percentage of projects where households derive their income from new on-farm or off-farm activities.	*0 projects*	*0 projects [No rating]*	12 projects	8 projects (67%) [Partially achieved]
		Average score and assessment for 2001		**60% [Partially achieved]**

44. Five to eight projects have sought to increase local capacity to manage the natural resource base in a sustainable manner. At the local authority level, projects promoted the development of land-use plans or local development plans that would adequately address environmental and natural resource management issues while encouraging inter-communal planning. At the community level, projects have worked to establish or strengthen natural resource management user groups while engaging community members in new income-generating activities to diversify rural economies and decrease pressure on fragile natural resource bases. In 2001, projects reported at least 94,380 persons directly benefiting from UNCDF activities in project areas and at least 370 hectares of land rehabilitated. Although limited and partial, progress is noted. [Partially achieved. 60 per cent].

45. *The fifth strategic area of support is 1.5: Advocate for national policies supporting decentralization, and for replication of pilot programmes. It has two outcomes.*

Outcome 1.5.1: Improved national policy and regulatory frameworks for decentralization and strengthened local government. [Partially achieved: 52 per cent]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.5.1.a - Percentage of projects where national policy directions on decentralization are influenced by UNCDF programmes	*Not applicable (new indicator)*	*Not applicable (new indicator)*	7 projects	3 projects (42.9%) [Below expectations]
1.5.1.b - Percentage of projects where statutory and legal framework are influenced by UNCDF programmes	*7 projects*	*7 projects (100%) [Satisfactory]*	4 projects	4 projects (100%) [Satisfactory]
1.5.1.c - Percentage of projects where the regulatory framework is influenced by UNCDF programmes	*9 projects*	*6 projects (67%) [Partially achieved]*	5 projects	3 projects (60%) [Partially achieved]
1.5.1.d - Percentage of projects where norms, systems and procedures at the local level reflect UNCDF lessons learned.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	9 projects	3 projects (33.3%) [Below expectations]
Average score and assessment for 2001				**52% [Partially achieved]**

46. UNCDF has neither the size nor the resources to make a significant impact on poverty on its own. Therefore, its aim is explicitly to demonstrate in a few localities new approaches and methodologies that will be included in national policy and emulated by other donors. Considering the difficulty of attaining outcomes in this area, UNCDF performed reasonably well. Overall, 12 out of 17 projects reported some success in influencing policy at various levels. [Partially achieved: 59 per cent]

Outcome 1.5.2: Best practices of UNCDF pilot projects are replicated by other donors [Partially achieved: 50 per cent]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
1.5.2.a - Percentage of projects where UNCDF support to local authorities is replaced or increased through co-financing by other donors.	*5 projects*	*4 projects (80%) [Satisfactory]*	2 projects	2 projects (100%) [Satisfactory]
1.5.2.b - Percentage of projects where UNCDF programmes are replicated outside UNCDF programme areas by other donors.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	2 projects	1 project (50%) [Partially achieved]
1.5.2.c - Percentage of projects where elements of UNCDF programme methodology have been adopted by other donors.	*Not applicable (new indicator)*	*Not applicable (new indicator)*	1 project	0 projects (0%) [Below expectations]
Average score and assessment for 2001				**50% [Partially achieved]**

47. UNCDF has begun work in this sector only relatively recently and therefore not many projects are ready to report on results in donor replication. The easiest form of replication to track occurs when other donors commit to expand on a UNCDF project, usually by enlarging the geographic area covered and sometimes by increasing the volume of funding. Two projects anticipated donor replication in 2001 and both satisfactorily attained their targets for new support to their local authorities. A second mode of replication involves donors adopting UNCDF approaches elsewhere in the country. Two projects reported on their results under this indicator, of which one was successful.

Replication in Mali

Since 1994, with the support of the Belgian Survival Fund, UNCDF has helped one of the poorest areas in Mali (Seno Gondo in the Mopti region) to implement local investments that address local challenges; food security, basic social and economic infrastructure and natural resource management. In 1999, with UNDP and continued support from the Belgian Survival Fund, UNCDF began piloting a decentralization programme covering 27 communes in the Timbuktu region.

48. The third identified form of replication concerns the partial adoption by other donors of UNCDF project design, strategy, methodology or approach but not enough for the new project to be considered a true replica. One

project reported on work in this area; it managed to secure 40 per cent of anticipated donor support for micro-projects in the programme communities. [Rating: Partially achieved 50 per cent]

B. Microfinance

49. *The first strategic area of support for microfinance is 2.1: Support an increase in assets of the poor. It has one outcome.*

Outcome 2 1.1: The poor, especially women, have greater access to microfinance services. [Partially achieved: 70%]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
2.1.1.a - Percentage of microfinance institutions reaching targets regarding number of active borrowers.	27 MFIs	26 MFIs (96%) [Satisfactory]	27 MFIs	19 MFIs (70.4%) [Partially achieved]
Average score and assessment for 2001				**70% [Partially achieved]**

50. A total of 70.4 per cent of MFIs attained their targets in active borrowers in 2001, with 11 of them exceeding their targets (partial achievement). Measured in terms of the actual number of active borrowers reached, the performance is more satisfactory – of a total target of 57,316 active borrowers, the MFIs managed to reach 53,598 active borrowers or 93.5 per cent of their combined targets (the average loan size of the 27 MFIs is $208). All the MFIs lend to women, ranging from a low of 19.9 per cent to 100 per cent of their active borrowers; totaling 22,142 women, or 41.3 per cent of total active borrowers reached. In addition, all but one of the reporting MFIs provided financial services for savers, reaching a total number of 107,069 active savers. As the revised reporting methodology does not require MFIs to set annual targets for performance relating to women borrowers and active savers, these indicators are reported but not rated. [Partially achieved: 70 per cent]

51. *The second strategic area of support for microfinance is 2.2: Promote the development of sustainable microfinance institutions. It has three outcomes.*

Outcome 2.2.1: Microfinance institutions are financially viable and provide quality services. [Partially achieved: 56%]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
2.2.1.a - Percentage of MFIs reaching targets regarding operational self-sufficiency rates	*16 MFIs*	*14 MFIs (87.5%) [Satisfactory]*	27 MFIs	16 MFIs (59.3%) [Partially achieved]
2.2.1.b - Percentage of MFIs reaching targets regarding portfolio at risk	*Not applicable (new indicator)*	*Not applicable (new indicator)*	26 MFIs	11 MFIs (42.3%) [Below expectations]
2.2.1.c - Percentage of MFIs reaching targets regarding portfolio outstanding	*Not applicable (new indicator)*	*Not applicable (new indicator)*	27 MFIs	18 MFIs (66.7%) [Partially achieved]
Average score and assessment for 2001				**56% [Partially achieved]**

52. The Special Unit for Microfinance works mainly with new and expanding MFIs where operational and financial self-sufficiency are not goals achievable in the short-term. It is important to track the progress of these MFIs towards operational and financial self-sufficiency, and these three indicators are useful for that purpose. Overall, it is encouraging to note the dramatic increase of MFIs that have begun reporting on these indicators as they are useful not only for monitoring purposes but also serve as critical management tools for the MFIs. The number of MFIs reporting on them has increased to 27, almost double the number (14) that reported on operational self-sufficiency in 2000. It should be recognized that the increase of MFI partners now tracking their operational self-sufficiency is a strong indication in itself that the MFIs are committed towards best practice and sustainability in microfinance operations. This is also an indication that MFIs are taking an important step towards incorporating a more transparent reporting process. As noted below, this increase disguises somewhat the good performance of the MFIs in 2001. Although the financial self-sufficiency indicator monitored in 2000 as outcome indicator 2.2.1b has been discontinued, 24 MFIs have reported on this and the same number of MFIs (six) have reported self-sufficiency ratios above 100 per cent while eight MFIs were able to cover more than half of their adjusted operating expenses with operating income, up from seven last year.

53. *The third strategic area of support for microfinance is 2.3: Advocate for an enabling environment for sustainable microfinance activities. It has one outcome.*

Outcome 2.3.1: Countries have improved their enabling environment for supporting the development of microfinance. [Satisfactory: 100%]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
2.3.1.a - Percentage of projects having lead to institutional change in the microfinance environment	*1 project*	*1 project (80%) [Satisfactory]*	1 project	1 project (100%) [Satisfactory]
Average score and assessment for 2001				**100% [Satisfactory]**

54. In 2000, one project (supporting five MFIs) attempted to produce institutional change through capacity-building initiatives and by supporting linkages between MFIs and the formal banking sector. In 2001, the same project was again successful in influencing the microfinance environment. It contributed to the establishment of a national policy for microfinance, development and application of norms and decrees by the Financial Banking Security Commission and continued promotion of the linkage between the microfinance and commercial banking sectors, promoting best practice and engaging the Government in a dialogue on key policy issues.

C. Organization strengthening

55. *The first strategic area of support for organizational strengthening is 3.1: Promote excellence in the planning and implementation of local development programmes and microfinance operations.* As several outcome indicators under this sub-goal are qualitative in nature, an overall rating is given rather than an overall performance score.

OUTCOME 3.1.1: UNCDF will have moved from policy refinement to an emphasis on operational impact. [Satisfactory]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
3.1.1.a - Annual programme targets are met: (a) Expenditures (b) Approvals	*$40 million* *$25 million*	*$38 million (97%)* *$19.2 million (77%)* *[Satisfactory]*	$35M $20M (adjusted to US$10.6M)	$36M (102%) $10.6M (100%) [Satisfactory]
3.1.1.b - Evaluations show greater levels of impact	*1999 evaluation reports shows impact*	*UNCDF is "effectively enhancing the well-being of the poor" [Satisfactory]*	2000 evaluation repoits shows impact	"UNCDF interventions contribute significantly to the well-being of the poor" [Satisfactory]

3.1.1.c - Action plan 2000 targets are respected	*See Action plan 2000 for Recommendations 1, 2 and 7*	*Recommendations 1 and 2 achieved and Recommendation 7 ongoing and will be finalized in 2001 [Satisfactory]*	See Action Plan 2000 for Recommendations 3, 5, 6, 7, 8, 9, 10, 11	Recommendations 9, 10 – 100% Recommendations 3, 5, 7, 11 –> over 75% Recommendations 6, 8 – > over 50% [Satisfactory : 75%]

56. For 2001, UNCDF effectively adhered closely to its programme expenditure targets, staying close to the $40 million average over the past few years. However, approval targets had to be adjusted downwards (as explained in paragraph 34). Unless core and non-core resources increase significantly, the gap between the demand for UNCDF investment and capacity-building services and its ability to meet them will continue to widen. In affirmation of UNCDF policy direction, the external evaluations of 16 projects were reviewed in the 2000 evaluation results report (published in 2001) and it was confirmed that UNCDF interventions contribute significantly to the well-being of the poor while providing strong support for UNCDF overall local development strategy. It was also found that most of the projects evaluated were successful in enhancing the sustainability of the local institutions. The follow-up to the recommendations of the 1999 external evaluation continued with good progress as 9 out of 11 recommendations are either completed or more than 75 per cent completed. Remaining tasks are in developing and implementing a competency development strategy and improving on financial and cost-effectiveness reporting.

OUTCOME 3.1.2: UNCDF will have maintained quality assurance through skilled staffing, improved elements of the project cycle and continuous learning through monitoring and evaluation. [Satisfactory]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
3.1.2.a - Increase in number of requests for UNCDF advisory services	*3*	*1 for Local Governance Unit and 23 for Special Unit for Microfinance* *[Exceeded expectations]*	5 for SUM	SUM – 19 (380%) [Exceeded expectations]
3.1.2.b - Average time for project formulation	*12 months*	*12 months (100%) [Satisfactory]*	12 months	9 months (125%) [Exceeded expectations]
3.1.2.c - Programmes formulated according to new guidelines	*Guidelines drafted and tested in 2 pilots*	*Guidelines prepared and pilots done in MAG and NIC* *[Satisfactory]*	- Formulation guidelines tested and finalized - Natural resource management guidelines developed	- Guidelines tested in 7 countries and finalized (100%) - Natural resource management guidelines finalized (100%) [Satisfactory]
3.1.2.d - % of new projects with an exit strategy for UNCDF	*4 projects*	*3 projects (75%) [Satisfactory]*	projects	3 projects (100%) [Satisfactory]
3.1.2.e - Dissemination of lessons learned and best practices	*Strategy for lessons learned and best practices prepared and put into operation*	*Draft strategy approved* *[Satisfactory]*	- Policy impact and replication strategy defined and disseminated - Organize international exchanges	- Policy impact and replication prepared, approved and disseminated (100%) - Cape Town conference held (90%) [Satisfactory]

57. The Special Unit for Microfinance (SUM) has made progress towards its target of satisfying demands for external advisory services. While the Local Governance Unit (LGU) is receiving an increasing number of requests for technical advice in decentralization and local governance, it is yet to formalize the extent and range of services to be offered. The development of a cost-recovery strategy for technical advisory services in both local governance and microfinance is an important task for 2002. UNCDF put into practice the new project formulation guidelines for two projects, requiring more extensive preparatory work during the conception stage. Nevertheless, both began formulation and were approved in an average of nine months. This is strong evidence in support of the new formulation approach as well as the effectiveness of the operational unit (in this case LGU) in implementing it. In addition, all new projects now have an explicit exit strategy. Both SUM and LGU are doing increasingly well in publishing their experience in the field and their reflections of this practice in relation to the wider debates in international development. Of particular interest

is the UNCDF sponsorship and organization of the Cape Town symposium on decentralization and local governance in Africa, in partnership with UNDP, the Ford Foundation, the Government of Japan, and the University of Western Cape. In microfinance, the Global Conference on Young and Promising MFIs was held in partnership with UNDP. Knowledge management and knowledge-sharing is a growth area for UNCDF and will both highlight and enhance its aspirations towards technical excellence in microfinance and local governance.

OUTCOME 3.1.3: UNCDF will have maximized its comparative advantages. [Satisfactory]

Indicators	***2000 Targets***	***2000 Achievements***	**2001 Targets**	**2001 Achievements**
3.1.3.a - Number of programmes/projects with replication partners on board to start-up	*2 projects*	*1 project (50%)* *[Partially achieved]*	2 projects	Eritrea – Belgian Survival Fund Nicaragua – World Bank (100%) [Satisfactory]
3.1.3.b - Best practices regarding policy impact are documented.	*Documented via West Africa workshop and policy paper*	*9 cases documented* *[Satisfactory]*	- Policy impact and replication strategy paper finalized - Microfinance best practices guide published	- Policy impact and replication strategy paper finalized and disseminated - Supporting Women's *Livelihoods* – A Guide to Best Practices published (100%) [Satisfactory]
3.1.3.c - Number of programmes with strategies for policy impact and replication.	*Technical and programme missions review strategies for Policy impact and replication*	*All missions included reviews of strategies for Policy impact and replication in terms of reference* *[Satisfactory]*	2	2 (100%) [Satisfactory]
3.1.3.d - Increased networking and growth in number of partnerships.	*3 partnerships*	*5 partnerships (167%)* *[Exceeded targets]*	- Memorandum of Understanding between SUM and Bureau for Development Policy (UNDP) - Memorandum of Understanding between LGU and Bureau for Development Policy (UNDP); - Memorandum of Understanding between SUM and African Development Bank	- Signed - Under discussion - Signed (> over75%) [Satisfactory]

58. All projects approved in 2001 have replication as part of the programme strategy, with important replication partners, the Belgian Survival Fund and the World Bank, involved at formulation. Also, it is now established practice to screen new projects to ensure they have explicit strategies for policy impact and replication. In the area of best practice, one of the expressed purposes of SUM is to mainstream best practice within the UNDP group. In 2001, two workshops were held in partnership with Concentrative Group to Assist the Poorest and UNDP in Mongolia and Cambodia and the Global Conference on Young and Promising MFIs was held. A microfinance distance learning programme was piloted. The documentation of best practice is one area where SUM has had success (the publication of *Supporting Women's Livelihoods – A Guide to Best Practices*). Partnerships, in the sense of co-financing, are now becoming the norm in the new local governance portfolio. Partnership with other donors in the deployment of technical resources has now been formalized between UNDP and SUM and is being pursued by LGU, for ratification in early 2002. Partnership for general resource mobilization has been pursued. In addition, an agreement with the Programme for Municipal Development (Cotonou) was signed and a preliminary agreement of partnership with the Centre for Development Research (Denmark) was established. Developing links with academic and research institutions remains in its infancy except where a focused product is the objective – such as the Cape Town symposium on decentralization and local governance in Africa; a success in itself; and specific research projects such as the local governance research initiative in collaboration with the Woodrow Wilson School of Public and International Affairs, Princeton University.

59. *The second strategic area of support is 3.2: Promote sound financial management of the organization and diversify the funding base.*

Strategic area of support 3.2: Promote sound financial management of the organization and diversify the funding base.

OUTCOME 3.2.1: UNCDF will have become more efficient and cost-effective through improved tracking and analysis of its finances. [Partially achieved]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
3.2.1.a - UNCDF reports on costs such as technical, supervisory, evaluation, missions on a yearly basis.	*Financial information system installed in UNCDF and options for supplementary reporting reviewed.*	*Financial information system installed, options reviewed and study on monitoring and evaluation costs undertaken [Partially achieved]*	Performance- based budgeting introduced	UNCDF able to report on overall expenditures under each ROAR sub-goal. [Partially achieved]
3.2.1.b - Percentage of administrative costs	*$5.4 million or 13.5%*	*$5.6 million or 14.7% (96%) [Satisfactory]*	$5.6 million or 16%	$5.98 million or 16.7% (95.6%) [Satisfactory]
3.2.1.c - Amount of savings	*$5 million*	*$12.8 million (142%) [Exceeded expectations]*	$3 million	$3 million [Satisfactory]
3.2.1.d - Changes made as a result to improved tracking	*Improved project budget planning and portfolio clean-up*	*Results-based budgeting introduced, $2.8 million savings due to portfolio clean-up*	Results-based budgeting operational	Projects were asked to link expenditures to outputs and outcomes but only few responded. [Below expectations]

60. UNCDF has kept close to its target administrative cost delivery ratio of 16 per cent and is committed to developing performance budgeting as part of its operations. In 2001, an attempt was made to estimate overall expenditures under each ROAR sub-goal. When the portion of administrative cost dedicated to technical support and programme operations on the ground is apportioned accordingly, the ratio is actually below 10 per cent. It is anticipated that with the introduction of the new management information system currently on trial in seven countries, UNCDF will be better able to determine how to apportion its budgets for programme and administrative support and, thus better track its performance in terms of cost-effectiveness and efficiency.

OUTCOME 3.2.2 UNCDF will have developed a culture of resource mobilization based on measurable performance, efficiency and value for money. [Partially achieved]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
3.2.2.a - All staff have a role in resource mobilization	*Donor database developed and strategy finalized*	*Resource mobilization information system established and strategy being finalized [Satisfactory]*	Resource mobilization information system and resource mobilization strategy operational	Resource mobilization task forces established and operational in both LGU and SUM. (100%)
3.2.2.b - Percentage of increase in non-core funding	*$5 million or a 127 per cent increase*	*$3.8 million or a 72 per cent increase (57%) [Partially achieved]*	$8 million or a 210% increase	$5.5 million or a 144% increase (68.8%) [Partially achieved]

61. This is now a perennial challenge and one to which all staff are increasingly committed. Resource mobilization task forces have been established in both LGU and SUM to develop resource mobilization strategies for their respective niche areas. At the same time, non-core funding has been emphasized as a critical area of growth and a modest target was set and partially achieved. In total, $5.5 million was raised in non-core funding, an improvement of 145 per cent over 2000. The fact that the two new Eritrea and Nicaragua LDPs had replication partners on board at conception is an indication that staff members have taken up the challenge of resource mobilization, in any form, seriously.

OUTCOME 3.2.3 UNCDF will have diversified its resource base and increased the number of donors. [Satisfactory]

Indicators	*2000 Targets*	*2000 Achievements*	2001 Targets	2001 Achievements
3.2.3.a - Percentage of increase in core funding.				
• Donors	*16*	*18 (113%)*	2 new donors	2 new donors
• Contributions	*$2 million*	*$23.9 million (95.6%)*	$26 million	$24.3 million (93.5%)
• Core	*$38 million*	*$30.3 million (80%) [Partially achieved]*	$30 million	$26.7 million (89%) [Satisfactory]

62. After a steady decline in the voluntary contributions of UNCDF since 1996, this negative trend was reversed for the first time in 2001 with a slight increase of 1 per cent to $24.3 million. Five members of the Development Assistance Committee of the Organization for Economic Operation and Development (OECD/DAC) donors increased their contributions in local currencies and UNCDF enlarged its support base with two new OECD/DAC core donors. Despite this positive development, the current level of UNCDF core contributions stands in contrast to the appreciation expressed by both programme and donor countries for the concrete results produced on the ground in its areas of concentration: local governance and microfinance.

VI. Lessons learned in results-based management

63. In March 2001, the decision to revise the UNCDF SRF, particularly for Sub-goal 3 was taken, drawing on lessons learned from the first ROAR exercise. For this purpose, a working group was established and the UNCDF SRF was revised. New user-friendly guidelines were consequently developed.

64. In May 2001, UNCDF organized three regional training workshops in Benin, Nepal and Uganda, which were attended by all field-based project officers and selected project staff. The purpose of these training events were:

- Detailed presentation of the revised UNCDF SRF and deepening of the staff understanding of each SRF Indicator, with subsequent endorsement of the revised UNCDF SRF;
- Introduction of the new results-based management (RBM) methodology and tools (see annex for details); annual work plans replaced target tables with a particular emphasis on new planning and reporting tools.

65. During the preparation of the 2001 ROAR, many areas of improvements were noted as compared to 2000: (a) improved responsiveness of project staff and improvement in meeting deadlines for submission; (b) improved quality of data provided; (c) improved understanding of the SRF indicators and of the RBM methodology in general.

66. Although it had been intended that 2001 targets should be set in January, they could not be set before July since time was needed, following the finalization of the 2000 ROAR, to revise the SRF, refine the RBM methodology and hold the training workshops. However, the fact that 2001 targets were set in July constitutes an improvement as compared to 2000, since 2000 targets had been set in November 2000 and were consequently distorted upwards.

67. In 2002, all 2002 annual work plans were prepared in January. This constitutes a major change as compared to the two previous years and a major improvement in the RBM methodology and also indicates that UNCDF RBM capacities have been strengthened. Although a drop in target achievement rates seems consequently unavoidable in the 2002 ROAR, all staff have welcome the opportunity to match the planning cycle with the RBM.

ANNEX: The SRF/ROAR methodology

The strategic results framework 2000–2003 was developed in 2000 in consultation with all UNCDF staff and partners, including field staff, and approved by the Executive Board in June 2000. Building on the 2000 experience and feedback from project staff, the SRF has been revised through a consultative process; some indicators were dropped while new ones were added. At the same time, new results based management tools - the annual work plan and the annual work plan report - were introduced. These facilitated the preparation of the 2001 ROAR. The annual work plan effectively combines planning, monitoring, management and reporting tools in order to reduce project workload and improve efficiency.

At the beginning of each calendar year, annual outcomes and outputs are identified for programmes and projects (with specified targets and budgets) and linked with SRF indicators (if and when relevant). These are reported in the annual work plan. At the end of the year, annual achievements are compiled and reported through the annual work plan reports. Programme managers, monitoring and evaluation technical advisors and the Evaluation Unit screen the reports rigorously to ensure compliance with the SRF and that targets are realistic set. To validate the data submitted, programme managers and the Evaluation Unit compare field technical reports and external project evaluation conclusions with the annual work plan reports of those projects.

Performance is rated according to target achievement rates for each project reporting under a specific SRF outcome indicator. Assessing the rate of achievement using common indicators facilitates the comparison of projects that measure outcomes with different units. The categories were defined as follows:

1.	Over 100%:	Exceeded targets
2.	75% - 100%:	Satisfactory
3.	50 - 74%:	Partially achieved
4.	Below 50%:	Below expectations

Using this rating system, the assessment of performance under each SRF outcome indicator is calculated by dividing the total number of projects judged "satisfactory" and "exceeded targets" by the total number of projects reporting under the indicator. This methodology enabled UNCDF to determine performance for each indicator across projects. For example:

PROJECT	TARGET	ACHIEVEMENT	PERCENTAGE	CATEGORY
Project 1	100 villages	80 villages	80%	Satisfactory
Project 2	50 communes	25 communes	50%	Partially ...
Project 3	200 villages	210 villages	105%	Exceeded ...
Project 4	2 districts	2 districts	100%	Satisfactory
Overall assessment of indicator			3 of 4 projects attain 75% or more of their targets	Satisfactory

Following the assessment of performance by SRF indicator, the assessment of overall progress towards an outcome is calculated by dividing the number of projects performing satisfactorily or above expectations by the total number of projects reporting. The review of performance per indicator is combined with other reports and evaluations to corroborate the rating. A "satisfactory" assessment means that UNCDF has progressed acceptably towards the achievement of the outcome. For example:

Outcome indicator	Total number Projects reporting	Number of projects satisfactory or above
Indicator 1	4	3 (75%)
Indicator 2	16	15 (93.8%)
Indicator 3	10	7 (70%)
Overall assessment of progress towards outcome	30	25 (83.3%) [Rating: Satisfactory]

Finally, the assessments of outcomes are aggregated under each sub-goal and analyzed to determine the Fund's overall performance.